BY PHIL PHILLIPS
CONTRIBUTING EDITOR
PHILLIPS@CHEMARKCONSULTING.NET

Maturity vs. Saturation: Part III

A look at adjacency and core strategies. The last of a three-part series.

In our last article Chemark discussed five strategic options for products in the mature portion of the product life cycle. The fifth strategic option addressed the issue of moving to adjacent markets. This option has three distinctive features. First, the markets are of significant size or can lead to substantial growth. Second, they build on a strong core business and draw strength from a strong core business. Lastly, adjacency strategies are journeys into the unknown, extending the core and pushing out the boundaries and step up in risk versus a typical organic growth format.

However, one must determine the proper balance between choosing adjacency and core strategies. Here are a few collective values of business that have surfaced during Chemark's consideration of these matters over the past 25 plus years. These values emphasize the importance of knowing the state of your core.

Key adjacency moves are practically never the recovery strategy for a very weak core in a distant market follower competitive position.

For market followers, the most practical direction to the formation of value requires consolidating with a competitor or finding deep within the business itself, a strong, profitable core where the principles of full potential and adjacency expansion can be applied. This would be tagged as a "shrinking to grow" tactical plan.

Adjacency moves are critical to the survival of businesses with a decomposing core.

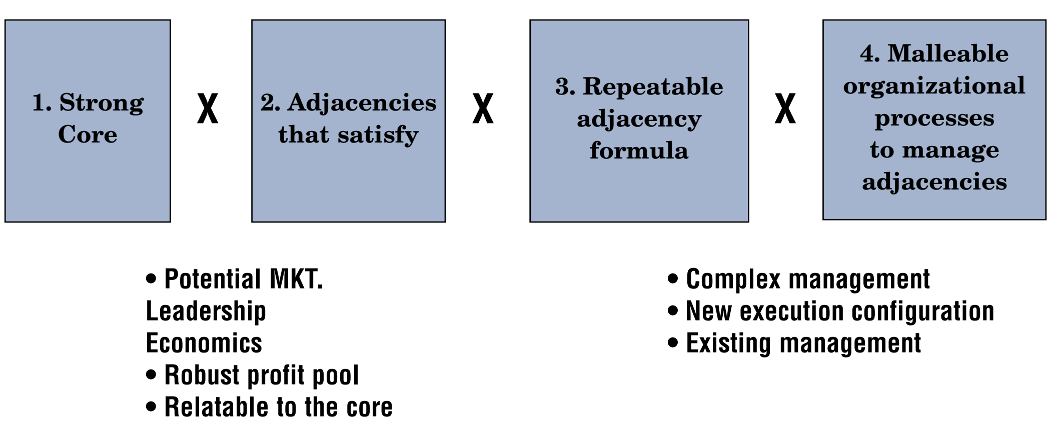
Businesses that have a strong core or dominate a niche but are close to full potential are probably entering a phase—saturation of that niche—in which the quality of their adjacency moves will shape their future.

Businesses that have a sturdy core but are severely underperforming operationally and financially should nearly always work on attaining full potential of the core as the highest priority.

Companies with an assortment of core busi-

Transformation Through Adjacencies

Four Multiplier Factors



Source: Chemark

nesses should inquire of themselves whether they are defining the borders of those cores correctly, and whether they really know the relative competitive positions of each business.

STATUS QUO

Growth is not about the status quo. Most organizations are designed to protect their existing position and operational framework. The core has to be protected first, but degrees of freedom of those managing adjacent businesses have to be freed from the typically slower moving and procedure-bound core.

LONGEVITY

Companies live about half as long today as they did on average after World War II. The reason companies fail at such a far greater rate today is simply because they were overtaken by competitors due primarily to their failure to adapt and failure to redefine their core business accurately.

Examples of being overtaken by competitors due primarily to their failure to adapt and failure to redefine their core business accurately in the paint and coatings industry are many. For example, Pratt & Lambert was acquired by Sherwin-Williams; M&T Chemicals' Coatings & Inks was acquired by Whittaker, then Morton, then Rohm & Haas; Union Carbide was acquired by Dow Chemical; Dexter Corporation's container business was acquired by Valspar. These are just a few examples among many more.

FACTORS AFFECTING WINNING ADJACENCY EXPANSIONS

Important factors affecting winning adjacency expansions include a strong core onto which to "bolt on" adjacency tactics; adjacency moves that suit three key criteria including relatedness to a strong core, robust profit pools and the potential for market leadership economics; a repeatable adjacency formula or template; and a malleable and replicable organizational processes to manage adjacencies.

The intrinsic stress between a focus and a growth strategy will always lay at the heart of many of the most complex judgments in all organizations, not just the paint and coatings industry. ***CW***

See Chemark's ad this month on page 45.